

1991



Department of the Treasury
Internal Revenue Service

Instructions for Form 4626

Alternative Minimum Tax—Corporations

(Section references are to the Internal Revenue Code unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping. 18 hr., 11 min.

Learning about the law or the form. 13 hr., 48 min.

Preparing and sending the form to the IRS. . . . 14 hr., 43 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Changes You Should Note:

(1) Line 7, relating to the adjustment based on energy preferences, has been added to reflect the provisions of new section 56(h) (which was added by section 11531 of the Revenue Reconciliation Act of 1990).

(2) We have added a worksheet (on page 7 of the instructions) to assist filers in computing the adjusted current earnings (ACE) adjustment (line 5 of Form 4626).

Who Must File.—You must file this form if your taxable income or (loss) before the net operating loss (NOL) deduction when combined with your adjustments and tax preference items (including the ACE adjustment) totals more than the lesser of: (a) \$40,000, or (b) your allowable exemption amount.

Short Period Return.—If this is a short period return, use the formula in section 443(d) to determine your alternative minimum taxable income (AMTI) and your alternative minimum tax (AMT).

Apportionment of Differently Treated Items in Case of Certain Entities.—If you are preparing Form 4626 for a regulated investment company, a real estate investment trust, or a common trust fund, see section 59(d).

Credit for Prior Year Minimum Tax.—See Form 8827, Credit for Prior Year Minimum Tax—Corporations, for details concerning the computation of the credit.

Specific Instructions

Line 1.—Enter your taxable income or (loss) before the NOL deduction. For example, if you file Form 1120, subtract line 29b from line 28.

Important: If you are subject to the environmental tax, you will generally need to figure that tax on line 17 before completing line 1 (see instructions for line 17).

Line 2a—Depreciation of tangible property placed in service after 1986 (or after July 31, 1986 if you made the transitional election under section 203(a)(1)(B) of the Tax Reform Act of 1986).

Caution: If you have a depreciation adjustment attributable to a passive activity or a tax shelter farm activity, do not include that adjustment on line 2a. Instead, include the adjustment on line 2j or 2k.

The depreciation expense allowable for regular tax purposes under section 167 with respect to any tangible property placed in service after 1986 must be recomputed for AMT purposes under the alternative depreciation system (ADS) described in section 168(g) as follows:

(1) For any real property described in section 1250(c) (generally nonresidential real and residential rental), use the straight line method over 40 years using the same mid-month convention you used for regular tax purposes;

(2) For any tangible property (other than the real property described in (1) above) for which depreciation for regular tax purposes is determined using the straight line method, recompute your depreciation expense using the straight line method over the property's "class life" using the same convention you used for regular tax purposes;

(3) For all tangible property other than property described in (1) or (2) above, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, over the property's class life. Use the same convention you used for regular tax purposes.

In applying the above rules:

(1) The "class life" you use for AMT purposes has a different meaning than the recovery period used for regular tax purposes (although these periods could possibly be the same in some instances). The class lives you use for AMT purposes are found in Rev. Proc. 87-56, 1987-2 C.B. 674, or in Publication 534, Depreciation. Use 12 years for any tangible personal property that does not have an assigned class life;

(2) See Rev. Proc. 87-57, 1987-2 C.B. 687, for optional tables (14 through 18) that you can use to figure depreciation for AMT purposes. (These optional tables also appear in Publication 534.);

(3) Do not make an adjustment for: (a) property for which you made a section 168(g)(7) election (to use the ADS of section 168(g)) for regular tax purposes, (b) property expensed under section 179 for regular tax purposes, or (c) property described in sections 168(f)(1) through (4); and

(4) You must take into consideration the transitional rules (described in section 56(a)(1)(C)) and the normalization rules (described in section 56(a)(1)(D)).

Subtract your recomputed AMT expense from the depreciation expense you claimed for regular tax purposes and enter the result on line 2a. If the total recomputed AMT expense exceeds the depreciation expense you claimed for regular tax purposes, enter the difference as a negative amount.

Note: Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.

Line 2b—Amortization of certified pollution control facilities placed in service after 1986.—The amortization deduction you claimed for regular tax purposes is not allowed for AMT purposes.

For AMT purposes, you must use the ADS described in section 168(g) (i.e., use the straight line method over the facility's class life). The facility's class life may be found in Rev. Proc. 87-56 or in Publication 534. **Note:** Section 168(g) applies to 100% of the asset's amortizable basis. Do not reduce your AMT basis by the 20% section 291 adjustment that applied for regular tax purposes.

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2b. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount.

Line 2c—Amortization of mining exploration and development costs paid or incurred after 1986.—If, for regular tax purposes, you elected the

optional 10-year writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).

The deduction you claimed for regular tax purposes under sections 616(a) and 617(a) is not allowed for AMT purposes. Instead, you must capitalize those costs and amortize them ratably over a 10-year period beginning with the tax year in which you made them. **Note:** The 10-year amortization applies to 100% of the mining development and exploration costs paid or incurred during the tax year. Do not reduce your AMT basis by the 30% section 291 adjustment that applied for regular tax purposes.

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2c. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(a)(2)(B) if you had a loss with respect to any mine or other natural deposit (other than an oil, gas, or geothermal well).

Line 2d—Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only).—If, for regular tax purposes, you elected the optional 3-year writeoff under section 59(e) for all of these expenditures, skip this line (no adjustment is necessary).

The deduction you claimed for regular tax purposes (under section 173) for these expenditures incurred after 1986 is not allowed for AMT purposes. For AMT purposes, you must capitalize these expenditures and amortize them ratably over a 3-year period beginning with the tax year in which you made them.

Subtract your recomputed AMT expense from the expense you claimed for regular tax purposes and enter the result on line 2d. If your recomputed AMT expense is greater than the expense you claimed for regular tax purposes, enter the difference as a negative amount. See section 56(b)(2)(B) if you had a loss with respect to circulation expenditures deducted under section 173.

Line 2e—Basis adjustments in determining gain or loss from sale or exchange of property.—If, during the tax year, you disposed of property for which you are making (or have previously made) any of the adjustments described in lines 2a through 2d above, you must recompute the property's adjusted basis for AMT purposes. You must then recompute the gain or loss on the disposition.

The property's adjusted basis for AMT purposes is its cost less all applicable depreciation or amortization deductions allowed for AMT purposes during the current tax year and previous tax years. This recomputed basis is subtracted

from the sales price to arrive at gain or loss for AMT purposes.

Note: You may also have gains or losses from lines 2j, 2k, and 2l that must be taken into consideration on line 2e. For example, if for regular tax purposes, you report a loss from the disposition of an asset used in a passive activity, you include the loss in your computations for line 2k to determine whether any passive activity loss is limited for AMT purposes. You then include the portion of the AMT passive activity loss allowed that pertains to the disposition of the asset on line 2e in determining your AMT basis adjustment. It may be helpful to refigure Form 8810 and related worksheets and Schedule D (Form 1120), Form 4684 (Section B), or Form 4797 for AMT purposes.

Enter the difference between the gain or loss reported on your tax return for regular tax purposes and your recomputed gain or loss for AMT purposes. If the gain recomputed for AMT purposes is less than the gain computed for regular tax purposes OR if the loss recomputed for AMT purposes is more than the loss computed for regular tax purposes OR if you recomputed a loss for AMT purposes and computed a gain for regular tax purposes, enter the difference as a negative amount.

Line 2f—Long-term contracts entered into after February 28, 1986.—For AMT purposes, you must use the percentage of completion method rules described in section 460(b) to determine the taxable income from any "long-term contract" (defined in section 460(f)) you entered into after February 28, 1986. However, this rule does not apply to: (1) any "home construction contract" (as defined in section 460(e)(6)) you entered into after June 20, 1988 with respect to which you meet the "small" home construction contract requirements of section 460(e)(1)(B) or (2) any home construction contract you entered into in a tax year beginning after September 30, 1990, regardless of whether you meet the "small" home construction contract requirements of section 460(e)(1)(B).

Note: In the case of a contract described in section 460(e)(1), the percentage of the contract completed is to be determined using the simplified procedures for allocating costs outlined in section 460(b)(4).

Subtract the income you reported for regular tax purposes from the income you recomputed for AMT purposes and enter the difference on line 2f. If the recomputed AMT income is less than the income you reported for regular tax purposes, enter the difference as a negative amount.

Line 2g—Installment sales of certain property.—For any disposition of inventory (as defined in section 1221(1)) after March 1, 1986, the installment

method of accounting cannot be used in determining income for AMT purposes (except for certain dispositions of timeshares or residential lots for which you elected to pay interest under section 453(l)(2)(B)).

Application of rules in computing adjustment:

(1) Dealer dispositions: For dealer dispositions occurring after March 1, 1986 but before January 1, 1988, you will have adjustments if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For dealer dispositions occurring after 1987, generally no adjustments are necessary since the installment method of accounting in most cases cannot be used for either regular tax purposes or for AMT purposes.

(2) Nondealer dispositions: For nondealer dispositions occurring after March 1, 1986 but before the first day of your tax year that began in 1987, you will have adjustments if you used the installment method for regular tax purposes but were required for AMT purposes to report the entire gain in the year of disposition. In such cases, enter the income you reported for regular tax purposes for the current year with respect to those dispositions on line 2g as a negative amount.

For nondealer dispositions occurring on or after the first day of your tax year that began in 1987, generally no adjustments are necessary since you are allowed to use the installment method of accounting for both regular tax purposes and AMT purposes.

Line 2h—Merchant marine capital construction funds.—Amounts deposited in these funds (established under section 607 of the Merchant Marine Act of 1936) after 1986 are not deductible for AMT purposes. Earnings on these funds are not excludable from gross income for AMT purposes. If you deducted these amounts or excluded them from income for regular tax purposes, you must add them back on line 2h. See section 56(c)(2) for more information.

Line 2i—Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only).—This deduction is not allowed for AMT purposes. If you took this deduction for regular tax purposes, you must add it back on line 2i.

Line 2j—Tax shelter farm activities (personal service corporations only).—Complete line 2j only if you have a gain or loss from a tax shelter farm activity (as defined in section 58(a)(2)) that is not

a passive activity. If the tax shelter farm activity is a passive activity, you must include the gain or loss in your computations for line 2k below.

Recompute all gains and losses you reported for regular tax purposes from tax shelter farm activities by taking into account your AMT adjustments and tax preference items. **Important:** To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2j must not be included in the amounts to be entered on any other line of this form.

Determine your tax shelter farm activity gain or loss for AMT purposes using the same rules you used for regular tax purposes with the following modification: No recomputed loss is allowed, except to the extent the personal service corporation is insolvent (see section 58(c)(1)). A recomputed loss may not be used in the current tax year to offset gains from other tax shelter farm activities. Instead, any recomputed loss must be suspended and carried forward indefinitely until: (1) you have a gain in a subsequent tax year from that same tax shelter farm activity, OR (2) the activity is disposed of.

Note: The amount of any tax shelter farm activity loss that is not deductible (and is therefore carried forward) for AMT purposes is likely to differ from the amount (if any) that is suspended and carried forward for regular tax purposes. You must retain adequate records for both AMT purposes and regular tax purposes.

Enter on line 2j the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Line 2k—Passive activities (closely held corporations and personal service corporations only).—

Recompute all passive activity gains and losses you reported for regular tax purposes by taking into account your AMT adjustments, tax preference items, and AMT prior year unallowed losses.

Important: To avoid duplication, any AMT adjustment or tax preference item taken into account on line 2k must not be included in the amounts to be entered on any other line of this form.

Determine your passive activity gain or loss for AMT purposes using the same rules you used for regular tax purposes. If the corporation is insolvent, see section 58(c)(1).

Disallowed losses of a personal service corporation are suspended until the corporation has income from that (or any other) passive activity or until the passive activity is disposed of (i.e., its passive losses cannot offset "net active income" (defined in section 469(e)(2)(B)) or "portfolio income"). Disallowed losses of a closely held corporation that is not a personal service corporation are treated the same except that, in addition, they may be used to offset "net active income."

Note: The amount of any passive activity loss that is not deductible (and is therefore suspended and carried forward) for AMT purposes is likely to differ from the amount (if any) that is carried forward for regular tax purposes. You must retain adequate records for both AMT purposes and regular tax purposes.

Enter on line 2k the difference between the gain or loss you recomputed for AMT purposes and the gain or loss you reported for regular tax purposes. If you reported a loss for AMT purposes and a gain for regular tax purposes OR if you recomputed a loss for AMT purposes that exceeds the loss you reported for regular tax purposes OR if you reported a gain for regular tax purposes that exceeds the gain you recomputed for AMT purposes, enter the difference as a negative amount.

Tax shelter farm activities that are passive activities.—Recompute all gains and losses you reported for regular tax purposes by taking into account your AMT adjustments, tax preference items, and AMT prior year unallowed losses.

Important: To avoid duplication, do not include any AMT adjustment or tax preference item taken into account here in the amounts to be entered on any other line of this form.

These recomputed gains and losses should enter into the determination of your passive activity gain or loss for AMT purposes described above. Use the same rules outlined above, with the following additional modification: Recomputed gains from tax shelter farm activities that are passive activities may be used to offset recomputed losses from other passive activities; however, recomputed losses from tax shelter farm activities that are passive activities may not be used to offset recomputed gains from other passive activities. (Recomputed losses from tax shelter farm activities that are passive activities are disallowed and must be suspended and carried forward as explained in the instructions for line 2j.)

Line 2l—Certain loss limitations.—Recompute gains and losses you reported for regular tax purposes from at-risk activities and partnerships by taking into account your AMT adjustments and tax preference items. If

you have recomputed losses that must (in accordance with section 59(h)) be limited for AMT purposes by section 465 or by section 704(d) OR if, for regular tax purposes, you reported losses from at-risk activities or partnerships that were limited by those sections, compute the difference between the loss limited for AMT purposes and the loss limited for regular tax purposes for each applicable at-risk activity or partnership. If the loss limited for regular tax purposes exceeds the loss limited for AMT purposes, enter the difference as a negative amount.

Line 2m—Other adjustments.—Include on this line:

(1) Income eligible for the possessions tax credit—The corporation's AMTI is not to include any income (from the sources described in section 936(a)(1)) that is eligible for the possessions tax credit of section 936. If you included this type of income in your taxable income for regular tax purposes, enter the amount on line 2m as a negative amount.

(2) Income with respect to the alcohol fuel credit—The corporation's AMTI is not to include any amount with respect to the alcohol fuel credit that was included in your gross income in accordance with section 87. If you included this type of income in your income for regular tax purposes, enter the amount on line 2m as a negative amount.

(3) Income as a beneficiary of an estate or trust—If the corporation is a beneficiary, enter the amount from Schedule K-1 (Form 1041), line 7.

Line 3a—Depletion.—In the case of mines, wells, and other natural deposits, enter the amount by which your depletion deduction under section 611 exceeds the adjusted basis of the property at the end of your tax year. In computing the year-end adjusted basis, use the rules of section 1016; however, do not reduce basis by the current year's depletion deduction.

Figure the excess separately for each property. If the depletion deduction for any property does not exceed the property's year-end adjusted basis, do not consider the shortfall on line 3a. (In other words, do not use a shortfall for one property to offset the excess of depletion deduction over adjusted basis for any other property.)

Note: In the case of iron ore and coal (including lignite), apply the section 291 adjustment before figuring this tax preference item.

Line 3b—Tax-exempt interest from private activity bonds issued after August 7, 1986.—Enter the interest you earned on "specified private activity bonds" reduced by any deduction that would have been allowable if the interest were includible in gross income for regular tax purposes. Generally, the term

"specified private activity bonds" means any private activity bond (as defined in section 141) issued after August 7, 1986. See section 57(a)(5) for exceptions and for more information.

Line 3c—Appreciated property charitable deduction.—Enter the amount by which your contribution deduction allowable under section 170 would be reduced if all capital gain property were taken into account at its adjusted basis (rather than its fair market value). See section 57(a)(6)(B) for definition of capital gain property.

Line 3d—Intangible drilling costs.—If, for regular tax purposes, you elected the optional 60-month writeoff under section 59(e) for all assets in this category, skip this line (no adjustment is necessary).

Intangible drilling costs (IDCs) from oil, gas, and geothermal properties are a tax preference item to the extent that "excess IDCs" exceed 65% of the "net income" from the properties. The tax preference item is computed separately for geothermal deposits, and for oil and gas properties that are not geothermal deposits.

"Excess IDCs" are the excess of: (1) the amount of IDCs you paid or incurred with respect to oil, gas, or geothermal properties that you elected to expense for regular tax purposes under section 263(c) (not including any section 263(c) deduction for nonproductive wells) reduced by the section 291 adjustment for integrated oil companies; over (2) the amount that would have been allowed had you amortized that amount over a 120-month period starting with the month the well was placed in production. **Note:** If you prefer not to use the 120-month period, you can elect to use any method that is permissible in determining cost depletion.

"Net income" is the gross income you received or accrued from all oil, gas, and geothermal wells less the deductions allocable to these properties (reduced by the excess IDCs).

Line 3e—Reserves for losses on bad debts of financial institutions.—Enter the excess of: (1) the deduction allowable for a reasonable addition to a reserve for bad debts of a financial institution to which section 593 applies (reduced by the section 291 adjustment), over (2) the amount that would have been allowable had the financial institution maintained its bad debt reserve for all tax years on the basis of actual experience.

Line 3f—Accelerated depreciation of real property placed in service before 1987.—Enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only

positive adjustments on line 3f. For 15-, 18-, or 19-year real property, use the straight line method over 15, 18, or 19 years, respectively. For low-income housing property, use the straight line method over 15 years.

Line 3g—Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only).—For leased personal property, other than recovery property, enter the excess of the depreciation claimed for the property for regular tax purposes over the depreciation allowable for AMT purposes as refigured using the straight line method. Figure this amount separately for each property and include only positive adjustments on line 3g.

For leased recovery property, other than 15-, 18-, or 19-year real property, or low-income housing, enter the amount by which your depreciation deduction determined for regular tax purposes is more than the deduction allowable for AMT purposes using the straight line method over the following recovery period:

| | |
|---|----------|
| 3-year property | 5 years |
| 5-year property | 8 years |
| 10-year property | 15 years |
| 15-year public utility property | 22 years |

Line 3h—Amortization of certified pollution control facilities placed in service before 1987.—If, for regular tax purposes, you made an election under section 169 to amortize the basis of a certified pollution control facility over a 60-month period, your tax preference for each facility is computed as follows:

- (1) Reduce the current year amortization deduction by the 20% section 291 adjustment;
- (2) Reduce the result in (1) above by the deduction you would have been allowed under section 167; and
- (3) Multiply the result in (2) above by 59%. Include only positive adjustments on line 3h.

Line 5—Adjusted current earnings adjustment.—If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip line 5 (it does not apply).

You may compute the ACE adjustment by using the worksheet on page 7. (The worksheet instructions begin on page 5.)

Line 7. Adjustment based on energy preferences.—In computing the AMTI of any taxpayer other than an integrated oil company, an adjustment is allowed in an amount equal to the lesser of: (a) the alternative tax energy preference deduction (as defined in section 56(h)(3)), or (b) 40% of line 6 of Form 4626. This amount is phased out as oil prices increase (see section 56(h)(2)).

See section 56(h) for additional details.

Line 8—Alternative tax net operating loss deduction.—Your alternative tax net operating loss deduction (ATNOLD)

is the NOL you determined for regular tax purposes under section 172, except that:

(1) In the case of a loss year beginning after 1986, the NOL you determined for regular tax purposes from that loss year must be: (a) reduced by the positive AMT adjustments and increased by the negative AMT adjustments provided in sections 56 and 58, and (b) reduced by the tax preference items you determined under section 57 (but only to the extent they increased the NOL you determined for regular tax purposes).

(2) In applying the rules outlined in section 172(b)(2) (regarding the determination of the amount of carrybacks and carryovers), you must use the modification to those rules described in section 56(d)(1)(B)(ii).

(3) If, for any tax year beginning before 1987, you had minimum tax that was deferred under section 56(b) (as in effect before the enactment of the Tax Reform Act of 1986) and that deferred tax has not been paid, the amount of NOL carryovers that you may carry over to this year for AMT purposes must be reduced by your tax preference items that gave rise to the deferred add-on minimum tax. (Section 701(f)(2)(B) of the Tax Reform Act of 1986.)

(4) Your ATNOLD is limited to the excess (if any) of: (a) 90% of your AMTI computed without regard to your ATNOLD and the adjustment based on energy preferences (i.e., 90% of line 6, Form 4626), over (b) the adjustment based on energy preferences (i.e., line 7 of Form 4626).

Note: The amount of any NOL that is not deductible for AMT purposes may be carried back or carried over in accordance with the rules outlined in section 172(b). The amount carried back or carried over for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes. You must retain adequate records for both AMT purposes and regular tax purposes.

Line 10a.—In computing the reduction of the tentative exemption amount, the line 9 AMTI of all members of a controlled group of corporations must be taken into account and any decrease of the tentative exemption amount must be divided equally among the members (unless all of the members consent to an unequal allocation). If you are preparing Form 4626 for a member of a controlled group, subtract that member's share of the \$150,000 floor from the member's share of the combined line 9 AMTI of all members of the controlled group of corporations and enter the difference on line 10a. See section 1561 for additional information.

Line 10c.—All members of a controlled group of corporations are limited to one \$40,000 tentative exemption, which

must be divided equally among the members (unless all of the members consent to an unequal allocation). If you are preparing Form 4626 for a member of a controlled group, reduce that member's share of the \$40,000 tentative exemption by the amount you entered on line 10b.

Line 13—Alternative minimum tax foreign tax credit.—Refigure the foreign tax credit you claimed for regular tax purposes as follows:

(1) For each separate limitation, recompute both the numerator (foreign source taxable income) and the denominator (worldwide taxable income) of the limitation fraction by taking into account your AMT adjustments and tax preference items,

(2) Substitute line 12 of Form 4626 for the "total U.S. income tax against which the credit is allowed";

(3) For each separate limitation, multiply the fraction in (1) above by the amount in (2) above to determine your recomputed limitation;

(4) For each separate limitation, take the lesser of the total foreign taxes paid with respect to that separate limitation and the recomputed limitation from (3) above; and

(5) Add the credits you recomputed for each separate limitation and enter the result on line 13.

Note: For purposes of determining whether any income is high-taxed in applying the separate income category limitations for the AMT foreign tax credit, use the AMT rate instead of the regular rate.

Your AMT foreign tax credit is subject to a 90% limit (i.e., the credit cannot be more than the amount on line 12 less 10% of the amount that would be on that line if Form 4626 were recomputed using zero on lines 7 and 8). The 90% limit does not apply to certain corporations that meet the requirements of section 59(a)(2)(C).

Note: With respect to any separate limitation, any AMT foreign tax credit you cannot claim (because of the limitation fraction or the 90% limit discussed above) may be carried back or carried over in accordance with the rules outlined in section 904(c). However, foreign taxes paid or accrued in a tax year beginning after 1986 that were carried back (for regular tax purposes) to offset tax in a tax year beginning before 1987 may not be used in computing the AMT foreign tax credit for the current tax year.

Note also: The amount of any foreign tax credit that you cannot claim (and can be carried back or carried over) for AMT purposes is likely to differ from the amount (if any) that is carried back or carried over for regular tax purposes. Therefore, it is essential that you retain

adequate records for both AMT purposes and regular tax purposes.

Line 15.—Enter your regular tax liability for the tax year (as defined in section 26(b)) less your foreign tax credit and your possessions tax credit. If you file Form 1120, this is line 3, Schedule J, minus the sum of lines 4a and 4b, Schedule J. Be sure to include any tax on accumulation distribution of trusts you computed on Form 4970. Do not include any increase in tax under section 49(b) or 50(a) due to recapture of investment credit you computed on Form 4255 or any increase in tax under section 42(j) or (k) due to recapture of low-income housing credit you computed on Form 8611.

Line 17—Environmental tax.—If you are preparing Form 4626 for a regulated investment company or a real estate investment trust, skip line 17 (it does not apply).

Compute your environmental tax as follows:

(1) Complete line 1 of Form 4626 without taking into account any environmental tax deduction.

(2) Complete lines 2a through 6 of Form 4626.

(3) Skip lines 7 through 16 and compute your environmental tax on line 17 of Form 4626.

Note: If you are completing line 17 for a member of a controlled group of corporations, all members of the controlled group are limited to one \$2 million exemption, which must be divided equally among the members (unless all of the members consent to an unequal allocation). See section 1561 for additional information.

Then compute your AMT as follows:

Complete line 1 of Form 4626 taking into account any deduction you are allowed with respect to the environmental tax. Then complete lines 2a through 16 of Form 4626.

ACE Worksheet Instructions

If you are completing this worksheet for an affiliated group that has filed a consolidated tax return for the current tax year under the rules of section 1501, you must determine ACE on a consolidated basis.

Treatment of certain ownership changes.—If a corporation with a net unrealized built-in loss (within the meaning of section 382(h)) undergoes an ownership change (within the meaning of section 382), you must adjust the adjusted basis of each asset of the corporation (immediately after the ownership change). The new adjusted basis of each asset is its proportionate share (based on respective fair market values) of the fair market value of the corporation's assets (determined under section 382(h)) immediately before the ownership change. To determine if you

have a built-in loss, you must use the aggregate adjusted basis of your assets that is used in computing ACE. **Note:** These new adjusted bases must be subsequently used for all ACE calculations (such as depreciation and gain or loss on disposition of an asset).

Line 2a. Depreciation expense recomputed for AMT purposes.—Enter the depreciation expense you recomputed for AMT purposes (i.e., the total depreciation expense deducted in arriving at the pre-adjustment AMTI reported on line 4 of Form 4626). Generally, the amount entered on this line is: (a) the depreciation expense you claimed for regular tax purposes (Form 4562, line 20), modified by (b) the AMT depreciation adjustments reported on lines 2a, 3f, and 3g of Form 4626.

Line 2b(i). Property placed in service in a tax year beginning after 1989.—Depreciate the basis of this property using the ADS described in section 168(g). However, for property that is: (a) placed in service in a tax year beginning after 1989, and (b) described in sections 168(f)(1) through (4), depreciate the basis of the property using the rules described in the instructions for line 2b(iv) and enter the result on that line.

Line 2b(ii). Property placed in service in a tax year beginning before 1990 to which the modified accelerated cost recovery system (MACRS) applies (i.e., generally property placed in service in tax years beginning after 1986 and before 1990).—Depreciate the adjusted basis of this property (which, for these purposes, is the adjusted basis of the property for AMT purposes as of the close of the last tax year beginning before 1990) using the straight line method over the remainder of the recovery period applicable to the property under the ADS of section 168(g). In doing so, use the convention that would have applied to the property under section 168(d). For additional information (including an example that illustrates the application of these rules) see Regulations section 1.56(g)-1(b)(2).

Line 2b(iii). Property placed in service in a tax year beginning before 1990 to which the original accelerated cost recovery system (ACRS) applies (i.e., generally property placed in service in tax years beginning after 1980 and before 1987).—Depreciate the adjusted basis of this property (which, for these purposes, is the adjusted basis of the property for regular tax purposes as of the close of the last tax year beginning before 1990) using the straight line method over the remainder of the recovery period applicable to the property under the ADS of section 168(g). In doing so, use the convention that would have applied to the property under section 168(d) (without regard to section 168(d)(3)). For additional

information (including an example that illustrates the application of these rules) see Regulations section 1.56(g)-1(b)(3).

Line 2b(iv). Property described in sections 168(f)(1) through (4).—Use the depreciation expense you claimed for regular tax purposes, regardless of when the property was placed in service.

Note: Line 2b(iv) takes priority over lines 2b(i), 2b(ii), and 2b(iii) (i.e., for property that is described in sections 168(f)(1) through (4), use line 2b(iv) instead of the line 2b(i), 2b(ii), or 2b(iii)) that would otherwise apply).

Line 2b(v). Other property (i.e., generally property placed in service before 1981 AND property placed in service after 1980, in a tax year beginning before 1990, that is excluded from the application of MACRS by section 168(f)(5)(A)(i) or original ACRS by section 168(e)(4) (as in effect before the Tax Reform Act of 1986)).—Use the depreciation expense you claimed for regular tax purposes.

Line 2c. ACE depreciation adjustment.—Subtract line 2b(vi) from line 2a and enter the result on line 2c. If line 2b(vi) exceeds line 2a, enter the difference as a negative amount.

Lines 3a through 3f. Inclusion in ACE of items included in earnings and profits (E&P).—In general, any income item that is not “taken into account” (defined below) in determining your line 1 pre-adjustment AMTI but that is “taken into account” in determining your E&P must be included in determining ACE. Any such income item may be reduced by all items that relate to that income item and that would be deductible in computing your pre-adjustment AMTI if the income items to which they relate were included in your pre-adjustment AMTI for the tax year. Examples of adjustments for these income items include: (i) interest income from tax-exempt obligations excluded under section 103 less any costs incurred in carrying these tax-exempt obligations; and (ii) proceeds of life insurance contracts excluded under section 101 less the basis in the contract for purposes of ACE.

Note: Do not make an adjustment for any income from discharge of indebtedness excluded from gross income under section 108 or any corresponding provision of prior law.

An income item is considered “taken into account” without regard to the timing of its inclusion in your pre-adjustment AMTI or your E&P. Only income items that are “permanently excluded” from your pre-adjustment AMTI are included in ACE. An income item will not be considered “taken into account” merely because the proceeds from that item might eventually be reflected in your pre-adjustment AMTI (e.g., that of a shareholder) on the liquidation or disposal of a business.

Line 3d.—Include in ACE the income on life insurance contracts (as determined under section 7702(g)) for the tax year less the portion of any premium that is attributable to insurance coverage.

Lines 4a through 4f.—Generally, no deduction is allowed in computing ACE for items not “taken into account” (defined below) for purposes of computing your E&P for the tax year. These amounts increase ACE to the extent they are deductible in computing your line 1 pre-adjustment AMTI (i.e., they would be positive adjustments). However, there are exceptions. Do not add back: (i) any deduction allowable under section 243 or 245 for any dividend that qualifies for a 100% dividends-received deduction under section 243(a), 245(b), or 245(c); and (ii) any dividend received from a “20-percent owned corporation” (as defined in section 243(c)(2)), but only to the extent the dividend is attributable to income of the paying corporation that is subject to Federal income tax. Also see sections 56(g)(4)(C)(iii) and (iv) for special rules for dividends from section 936 companies and certain dividends received by certain cooperatives.

An item is considered “taken into account” without regard to the timing of its deductibility in computing your line 1 pre-adjustment AMTI or your E&P. Therefore, only deduction items that are “permanently disallowed” in computing your E&P are disallowed in computing ACE.

Items described in Regulations section 1.56(g)-1(e) for which no adjustment is necessary. Generally, no deduction is allowed for an item in computing ACE if the item is not deductible in computing your line 1 pre-adjustment AMTI (even if the item is deductible for purposes of computing your E&P). The only exceptions to this general rule are the related reductions to an income item described in the second sentence of the instructions for lines 3a through 3f above. Deductions that are not allowed in computing ACE include: (i) capital losses in excess of capital gains; (ii) bribes, fines, and penalties disallowed under section 162; (iii) charitable contributions in excess of the limitations of section 170; (iv) expenditures for meals and entertainment in excess of the limitations of section 274; (v) Federal taxes disallowed under section 275; and (vi) golden parachute payments in excess of the limitation of section 280G. **Note:** No adjustment is necessary for these items since they were not allowed in computing your line 1 pre-adjustment AMTI.

Lines 5a through 5f.—Other adjustments based on specific rules for computing E&P:

Line 5a. Intangible drilling costs.—For purposes of computing ACE, determine

your deduction for intangible drilling costs (as defined in section 263(c)) in the manner provided in section 312(n)(2)(A).

Subtract your recomputed ACE expense (if any) from the expense you recomputed for AMT purposes (in arriving at the preference amount to be entered on line 3d of Form 4626) and enter the result on line 5a of the worksheet. If the total recomputed ACE expense exceeds the amount you recomputed for AMT purposes, enter the result as a negative amount.

Line 5b. Circulation expenditures.—If, for regular tax and AMT purposes, you elected the optional 3-year write-off under section 59(e) for all of these expenditures, skip this line (no adjustment is necessary).

For purposes of computing ACE, the amortization provisions of section 173 do not apply to amounts paid or incurred in tax years beginning after 1989. Therefore, for ACE purposes, you must treat circulation expenditures in accordance with the case law that existed before section 173 was enacted.

Subtract your recomputed ACE expense (if any) from the expense you claimed for regular tax purposes (or in the case of a personal holding company, from the expense you recomputed for AMT purposes in arriving at the adjustment amount to be entered on line 2d of Form 4626) and enter the result on line 5b. If the total recomputed ACE expense exceeds the amount you claimed for regular tax purposes (or in the case of a personal holding company, the amount you recomputed for AMT purposes), enter the result as a negative amount.

Line 5c. Organizational expenditures.—For purposes of computing ACE, the amortization provisions of section 248 do not apply to amounts paid or incurred in tax years beginning after 1989. Therefore, for ACE purposes, all organizational expenses are charged to a capital account and are not taken into account until the corporation is sold or otherwise disposed of.

Enter on line 5c all amortization deductions for organizational expense taken for regular tax purposes during the tax year.

Line 5d. LIFO inventory adjustments.—The adjustments provided in section 312(n)(4) apply in computing ACE.

Line 5e. Installment sales.—For any installment sale in a tax year beginning after 1989, you generally cannot use the installment method for purposes of computing ACE. However, the installment method may be used with respect to the applicable percentage (as determined under section 453A) of the gain from any installment sale to which section 453A(a)(1) applies.

Subtract the installment sale income you reported for AMT purposes from your recomputed ACE income from the sales and enter the result on line 5e of the worksheet. If your recomputed ACE income from the sales is less than the amount you reported for AMT purposes,

enter the difference as a negative amount.

Line 6. Disallowance of loss on exchange of debt pools.—For purposes of computing ACE, you may not recognize any loss on the exchange of any pool of debt obligations for another

pool of debt obligations having substantially the same effective interest rates and maturities. You must add back (i.e., enter as a positive adjustment) on line 6 any such loss to the extent recognized for regular tax purposes.

Adjusted Current Earnings Adjustment Worksheet

► See ACE Worksheet Instructions (which begin on page 5).

| | | | |
|--------------|--|----------------|-----------|
| 1 | Pre-adjustment AMTI (enter the amount from line 4 of Form 4626) | | 1 |
| 2 | ACE depreciation adjustment: | | |
| a | Depreciation expense recomputed for AMT purposes | 2a | |
| b | Depreciation expense recomputed for ACE purposes: | | |
| (i) | Post-1989 property | 2b(i) | |
| (ii) | Pre-1990 MACRS property | 2b(ii) | |
| (iii) | Pre-1990 original ACRS property | 2b(iii) | |
| (iv) | Property described in sections 168(f)(1) through (4) | 2b(iv) | |
| (v) | Other property | 2b(v) | |
| (vi) | Total depreciation expense recomputed for ACE purposes (add lines 2b(i) through 2b(v)) | 2b(vi) | |
| c | ACE depreciation adjustment (subtract line 2b(vi) from line 2a) | | 2c |
| 3 | Inclusion in ACE of items included in E&P: | | |
| a | Tax-exempt interest income | 3a | |
| b | Death benefits from life insurance contracts | 3b | |
| c | All other distributions from life insurance contracts (including surrenders) | 3c | |
| d | Inside buildup of undistributed income in life insurance contracts | 3d | |
| e | Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial list) | 3e | |
| f | Total increase to ACE due to inclusion in ACE of items included in E&P (add lines 3a through 3e) | | 3f |
| 4 | Disallowance of items not deductible in computing E&P: | | |
| a | Certain dividends received | 4a | |
| b | Dividends paid on certain preferred stock of public utilities that are deductible under section 247 | 4b | |
| c | Dividends paid to an ESOP that are deductible under section 404(k) | 4c | |
| d | Non-patronage dividends that are paid and deductible under section 1382(c) | 4d | |
| e | Other items (see Regulations section 1.56(g)-1(d)(3)(i) and (ii) for a partial list) | 4e | |
| f | Total increase to ACE due to disallowance of items not deductible in computing E&P (add lines 4a through 4e) | | 4f |
| 5 | Certain other E&P adjustments: | | |
| a | Intangible drilling costs | 5a | |
| b | Circulation expenditures | 5b | |
| c | Organizational expenditures | 5c | |
| d | LIFO inventory adjustments | 5d | |
| e | Installment sales | 5e | |
| f | Total other E&P adjustments (combine lines 5a through 5e) | | 5f |
| 6 | Disallowance of loss on exchange of debt pools | | 6 |
| 7 | Acquisition expenses of life insurance companies for qualified foreign contracts | | 7 |
| 8 | Depletion | | 8 |
| 9 | Basis adjustments in determining gain or loss from sale or exchange of property | | 9 |
| 10 | Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9 | | 10 |
| 11 | Subtract line 1 from line 10 (see instructions for examples). See instructions for limitation on negative amounts that may be entered on this line | | 11 |
| 12 | Adjusted current earnings adjustment. Multiply line 11 by 75%. Enter the result here and on line 5 of Form 4626 | | 12 |

Line 7. Acquisition expenses of life insurance companies for qualified foreign contracts.—For purposes of computing ACE, acquisition expenses of life insurance companies for qualified foreign contracts (as defined in section 807(e)(4) without regard to the treatment of reinsurance contract rules of section 848(e)(5)) must be capitalized and amortized in accordance with the treatment generally required under generally accepted accounting principles (and in such a manner as if this rule applied to such contracts for all applicable tax years).

Subtract your recomputed ACE expense (if any) from the expense you recognized for regular tax purposes and enter the result on line 7. If the total recomputed ACE expense exceeds the amount you recognized for regular tax purposes, enter the result as a negative amount.

Line 8. Depletion.—For purposes of computing ACE, the allowance for depletion for any property placed in service in a tax year beginning after 1989 must be determined under the cost depletion method of section 611.

Subtract your recomputed ACE expense (if any) from the expense you recomputed for AMT purposes (in arriving at the preference amount to be entered on line 3a of Form 4626) and enter the result on line 8 of the worksheet. If the total recomputed ACE expense exceeds the amount you recomputed for AMT purposes, enter the result as a negative amount.

Line 9. Basis adjustments in determining gain or loss from sale or exchange of property.—If, during the tax year, you disposed of property for which you are making (or have previously made) any of the ACE adjustments described in section 56(g), you must recompute the property's adjusted basis for ACE purposes. You must then recompute the property's gain or loss.

Enter the difference between the gain or loss you recomputed for AMT purposes (in arriving at the adjustment amount to be entered on line 2e of Form 4626) and your recomputed gain or loss for ACE purposes. If the gain recomputed for ACE purposes is less than the gain recomputed for AMT purposes OR if the loss recomputed for ACE purposes is more than the loss recomputed for AMT purposes OR if you recomputed a loss for ACE purposes and recomputed a gain for AMT purposes, enter the difference as a negative amount.

Line 11.—If you are preparing this worksheet for an affiliated group that has filed a consolidated tax return for the current tax year under the rules of section 1501, you must figure line 11 on a consolidated basis.

The following examples illustrate the manner in which positive and negative numbers on lines 1 and 10 are to be combined in arriving at the amount to be entered on line 11:

Example 1: Corporation A determines its line 10 ACE to be \$25,000. If Corporation A has line 1 pre-adjustment AMTI in the amounts shown below, its line 1 pre-adjustment AMTI and line 10 ACE would be combined as shown below in arriving at the amount to be entered on line 11:

| | | | |
|---------------------------------|---------------|---------------|-----------------|
| Line 10 ACE | \$25,000 | \$25,000 | \$25,000 |
| Line 1 pre-adjustment AMTI | <u>10,000</u> | <u>30,000</u> | <u>(50,000)</u> |
| Amount to be entered on line 11 | \$15,000 | \$(5,000)* | \$75,000 |

*This amount will be less if the rules for "limitation on negative amounts that may be entered on line 11" discussed below apply.

Example 2: Corporation B determines its line 10 ACE to be negative \$25,000. If Corporation B has line 1 pre-adjustment AMTI in the amounts shown below, its line 1 pre-adjustment AMTI and line 10 ACE would be combined as shown below in arriving at the amount to be entered on line 11:

| | | | |
|---------------------------------|-----------------|-----------------|---------------|
| Line 10 ACE | \$(25,000) | \$(25,000) | \$(25,000) |
| Line 1 pre-adjustment AMTI | <u>(10,000)</u> | <u>(30,000)</u> | <u>50,000</u> |
| Amount to be entered on line 11 | \$(15,000)* | \$5,000 | \$(75,000)* |

*These amounts will be less if the rules for "limitation on negative amounts that may be entered on line 11" discussed below apply.

Limitation on negative amounts that may be entered on line 11. Any negative amount for the current tax year may not exceed the excess (if any) of the aggregate increases in AMTI from prior year ACE adjustments over the aggregate reductions in AMTI from prior year ACE adjustments. Any excess of line 1 pre-adjustment AMTI over line 10 ACE that is not allowed as a negative adjustment in any tax year because of the limitation described in the previous sentence is not applied to reduce any positive adjustment in any other tax year.

Example 3: Corporation C, a calendar-year corporation, has line 1 pre-adjustment AMTI and line 10 ACE in the following amounts for 1990 through 1993:

| Year | Line 10 ACE | Line 1 pre-adjustment AMTI |
|------|-------------|----------------------------|
| 1990 | \$700,000 | \$800,000 |
| 1991 | 900,000 | 600,000 |
| 1992 | 400,000 | 500,000 |
| 1993 | (100,000) | 300,000 |

Under these facts, Corporation C would enter the following amounts on line 11, which would result in the following increases or decreases in AMTI being entered on line 12:

| Year | Amount to be entered on line 11 | Increase or (decrease) in AMTI from ACE adjustment to be entered on line 12 |
|------|---------------------------------|---|
| 1990 | \$0 | \$0 |
| 1991 | 300,000 | 225,000 |
| 1992 | (100,000) | (75,000) |
| 1993 | (200,000) | (150,000) |

Detailed explanation of Example 3:

In 1990, Corporation C has a potential negative amount to be entered on line 11 (before the cumulative limitation) of \$100,000, which results in a potential negative adjustment (before the cumulative limitation) of \$75,000 (75% of the negative \$100,000) to be entered on line 12. However, Corporation C is not permitted to enter a negative amount on line 11 or on line 12 because it had no prior increases in its AMTI due to an adjustment for ACE (i.e., 1991 was the first tax year for which Corporation C was subject to the ACE adjustment). Corporation C enters \$0 on line 11 and \$0 on line 12 in 1990.

In 1991, Corporation C has a positive amount to be entered on line 11 of \$300,000, which results in a positive amount of \$225,000 to be entered on line 12. Corporation C is not allowed to use its prior year's unallowed adjustment to reduce these amounts. Corporation C enters \$300,000 on line 11 and \$225,000 on line 12 in 1991.

In 1992, Corporation C has a potential negative amount to be entered on line 11 (before the cumulative limitation) of \$100,000, which results in a potential negative adjustment (before the cumulative limitation) of \$75,000 (75% of the negative \$100,000) to be entered on line 12. Corporation C is permitted to enter the entire (\$100,000) on line 11 and the entire (\$75,000) on line 12 for 1992 because its prior cumulative increases in AMTI due to the positive adjustments for ACE (i.e., a positive \$225,000) exceed the potential negative adjustment of \$75,000 for the year.

In 1993, Corporation C has a potential negative amount to be entered on line 11 (before the cumulative limitation) of \$400,000, which results in a potential negative adjustment (before the cumulative limitation) of \$300,000 (75% of the negative \$400,000) to be entered on line 12. Corporation C's net cumulative increases in AMTI due to the adjustment for ACE are \$150,000 (i.e., the \$225,000 increase in 1991, less the \$75,000 decrease in 1992). Therefore, Corporation C's negative adjustment to be entered on line 12 for 1993 is limited to \$150,000. Corporation C may not use the remaining \$150,000 (i.e., \$300,000 minus \$150,000) of the negative adjustment for 1993 to reduce positive adjustments in other tax years. For 1993, Corporation C enters \$200,000 on line 11 and \$150,000 on line 12.